

6% reduction in their market share. In Pittsburgh, AGH has seen 6% increase, UPMC (and others) have seen a 6% reduction. In Philadelphia, AUH has seen a 6% increase in market share, and University of Pennsylvania, Jefferson, Temple have seen a 6% reduction. We are clearly building in a declining market. Ability to treat more people and treat them effectively. Advantages are that we are seeing things that are non-recurring so that the first three months' results are stronger than what we anticipated for the system as a whole. This was a tough year, and it has paid off that we were able to absorb that kind of variation and make the adjustment during the fiscal year.

Hernandez: You are saying if you take the \$82 million and subtract, we would have made money on operations.

\_\_\_\_\_ ?

Initial budget was that we were to lose \$6 million. Calvin was ahead of his budget. Don had a good year because during that year we added 360 new physicians and scientists.

Kaye: This last year in terms of investment growth, start up programs was probably the equivalent of the 20 years prior to that that I have been involved. Extraordinary. Beginning to pay off because we are seeing a sustained increase in volume activity and intensity. Year of major investment which should be able to pay off over the next few years.

Sanzo: Some of you may remember that AGH started off the year with the worst start we had. In March, we were 560 cases behind plan and projected that we would end up that way. As it turned out, things turned around fairly dramatically in April, and by the end of the year we were on plan and recovered all that we lost in the first three quarters and that has continued in Fiscal Year 97. In large measure, that is because of things we put in place last year. Continuing to be successful. Momentum issue here also. Will be concentrating growth in the broad areas of cancer, and hopefully will be able to expand our radiation oncology areas also. Don't see Blue Cross making the kind of shifts they made last year, so we don't see a large reduction in rates except those that are budgeted. And as Internal Audit noted, we have made significant market gains. We are the only hospital who is aggressively recruiting nurses.

Abdelhak: Len had an equally difficult year and surprises with the state there, yet he ended the year ahead of his target. Had projected they would lose \$2 ½ million and came in at \$1.7 million. We are the only University that includes depreciation as an expense. If you could eliminate depreciation as an expense, it was a profitable year.

- Barnes: To wrap it up, institution identified strategy several years ago and has been working vigorously to implement it. Cost a lot of money, but it seems to be working. Keeping hospitals full, think it is important that we all understand, too.
- Abdelhak: These statements are all very conservative. Gains that we show are not all that we have to show. Very conservative. It has been our policy to reflect our statements in conservative fashion so that there is a strong base for it.
- Buettner: Historically, I have indicated to this committee that when management goes through a process of estimation in establishing reserves, there is a need to be conservative. That philosophy is inconsistent among my client base - some folks are much more aggressive, so you are taking a very realistic and conservative approach to addressing some concern. From my own perspective, the vast majority of our clients have had performance problems on the financial statements. Bottom line is done; hurt badly by managed care contracts. The financial picture for other institutions is not as rosy as they would like.
- Barnes: This is an important issue and want to give all of the committee an opportunity to express concerns, etc.
- Cook: Encouraged by increase in market share. As the investments kick in and market share increases, it raises the only operating concern I have is the receivables. Control of process from billing and receiving is in Pittsburgh, and they have my only operating concern.
- ? Request that management give us their guess as to what the CAT fund increase might be.
- Wynstra: 264%, 164 last year.
- Talking about receivables now.....:
- McConnell: Actual Delaware Valley conversions of the receivables to Pittsburgh and to the new software occurred in December-January. As you know from other meetings, we were experiencing increases due to training new people on software and retained outside help to run off the old systems. The blip that we saw was in May. In June, July, and August, they are coming back - not where they need to be. Continue in Pittsburgh to have lowest A/R balance in terms of any hospital. It has become clear in terms of the move to Pittsburgh that it will take a different type of management in the Delaware Valley. Have made changes in accountability. All registration is now under the same people. Takes longer there because of the

differences in the system. Progress is being made. But number was reduced over last year's actual results. All the indicators I see are pointing in the right direction. Not moving backward. I asked Bill to do extra work in the receivables area; feel now that our reserves are adequate. Have made improvement. Coopers & Lybrand has done additional work to make sure nothing major would fall through the crack. Have retained Deloitte & Touche to verify our charge system. Testing it from multiplicity of angles. When we are done and you ask if it was the right thing to change software and the move to Pittsburgh at the same time - many decisions there with the move and the software change. There might have been a less bad way to do it.

Buettner: We did perform additional work in the receivables area from a control perspective and from an individual billing review perspective. Findings outlined in comment letter. We are comfortable with the process management is following to establish reserves. Observations relate more to the process than to the accounting control. Confusion in registration - new process, appropriate data, lot of bills coming back due to insufficient data. Follow up, etc. Problems came through registration. Some inconsistency in terms of following up on legitimate bills. Centralizing billing, particularly in the Delaware Valley, makes a lot of sense. We believe that move, along with some intense education with managed care will resolve situation.

Abdelhak: We are processing one million transactions per month. The volume is incredible. So we try to simplify it. Unfortunately, we are also regulated and are obliged to give details on bills. With those large numbers, unfortunately, errors occur. Difficult problem; we are working at it. We are moving toward on line bill to third parties. (Reviewed how errors occur).

Kaye: Talked about careers which have sub-divided themselves into multiple contracts.

McConnell: 285 different managed care contracts. To the point: We now do about 80% same day screening of bills, which saves the 30-40 day lag of the bills going to the insurance company. Additional training needed.

Abdelhak: Giving a context of what we are dealing with here. Called on all board members for comments.

Resolution, Page 10. Approved.

Abdelhak: Bill, the format you used in the statements is not helpful because many people rely on the statements (working with St. Chris, etc.). If we don't present it in the

most constructive way, it is harmful to us. I will talk to David later before we print any more, and we may change presentation.

III. C. Report on Internal Controls

Buettner: This letter is required to be filed with the institution's Medicare cost reports. Noted no items of material weaknesses and material weakness is defined in Paragraph 3 of the letter. Basically, it is a clean letter.

Resolution approved.

IV. A. Management Letter

Buettner: Page 17, we have a comment on revenue in Accounts Receivable, and the items we have already talked about on Pages 17-18. Pages 20-22 is overview of work in Tony's area and our findings. Only one comment is testing of disaster recovery. Very comfortable with control environment in EDP area. Dramatic improvement. Pages 24-26, general comments that we would like to pass on: page 24, certain areas that we believe need improvement in Human Resources and Payroll (changes in the master file of the Payroll system). Have a lot of employees (new hires and transfers) - Catching up with paper flow, 300 manual checks and edit reports not being reviewed on timely basis.

Barnes: A lot of the stuff is common sense stuff. Let's not spend time here.

Buettner: We have reviewed management response in each case and are comfortable. Unless you have questions .....

(Page 26, Hernandez - what don't you agree with? Tony answered).

IV. B.

Buettner: Letter is one we are required to issue. We talked about every item included in the letter. If you have any questions, we will answer.

IV. C.

McConnell: Years ago, David suggested we need to keep Audit Committee aware of policies and real risks to the organization. Nationally, the government is taking a very strict and asinine view of physicians' billing and inappropriate bills. We have seen audits with several major teaching institutions (Penn, Jefferson). Basically, government is coming in and reviewing your approach to billing from a documentation and compliance review. Very specific, vague requirements. They are auditing this - if there is any aberration, they are saying you fraudulently

billed. They started this by using OIG auditors. Lot of hue and cry about quality of auditors. Now they have a program called PATH 2, which is a program where you, as a teaching hospital, select an outside audit firm on their approved list who has not done work for you in the past - would come in, do the audit, work on behalf of government, you pay the bill; anything you gain goes to government, anything under that, you pay the government. Much of it becomes review of the government as to what they find. If you take it seriously and findings are not flagrant, you are inclined to get double damages. If it is flagrant, you would go higher.

We are making sure we have good policies; that we educate our physicians so that when our time comes, government has to find that any errors we have are purely clerical. We have reviewed hundreds of physician practices, and they always have errors. Have meeting scheduled later this month to talk about scope of review. They review charts from 94, review 100 charts and extrapolate it back to your organization.

Abdelhak: Talked about Penn.

McConnell: Talked about how the government is viewing the way in which we did our procedures.

Barnes: This may be a PR issue, but not material.

#### IV. D.

Schrecengost: Did an audit of the matched savings plan. Excellent plan. Audit has been time consuming because of complexity of plan. Have identified certain items which are compliance related and decided to take advantage of program offered by IRS in which you come forward and disclose errors to IRS. We felt it was best alternative to protecting matched savings plan. Document was authored by Coopers & Lybrand with assistance by outside actuarial experts and Human Resources. We are recommending that we have a sanction amount of \$27,000. Our letter is included in report. Audit report will be at the next meeting. We are putting \_\_\_\_\_ behind us.

#### IV. E.

Wynstra: Most of you have heard this presentation. I will answer questions.

#### IV. F.

Schrecengost: Includes summary of Audit Services' activity. Have given summary of each

project and included for more detail Summary of Executive Management. We are focusing heavily on billing areas and compliance areas. This is consistent with the work plan.

Hilton: Is overall reaction favorable and cooperative?

Schrecengost: Yes, it is amiably cooperative. Have no problem at all. Management concurs with our plans.

Hernandez: Page 63 Audit - Cafeteria - What were the employee sanctions? This audit was conducted by management. We helped summarize things management uncovered. Terminations of people. Disciplinary actions. People who were dealing have been terminated. Those who were out were in Employee Assistance Plan.

Cook: Asked for update on organization chart in Pittsburgh and Delaware Valley.

Meeting adjourned 11:28 a.m.

Executive session? No from Coopers & Lybrand.

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**EXHIBIT 6**

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Finance Cte 3/14/97

Audit Cte 10/15/97

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Finance Cte 10/30/97

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**Transcription of Shorthand Notes of Carol Gordon - Audit Committee**  
**March 14, 1997**

NOTE from transcriptionist:

( ) means I did not write anything in that spot at the meeting.  
\_\_\_\_\_ means I cannot read it now.  
\_\_\_\_\_ ? \_\_\_\_\_ means I do not know who said it.

10:00

No additions.

III. A. Minutes approved.

III. B.

\_\_\_\_\_ ? Page 11 – audit plan for 1997. There are a few items to point out: Their approach for 1997 will be similar to what was performed in the past in terms of overall strategy and will be systems oriented. Met with management throughout the year and met with internal audit group and coordinated planning. Worked with management and internal audit and due diligence team on various acquisitions that we have had.

Page 16 – Organization chart listing individuals that they intend to use for work this year across the AHERF system. In cover letter, we indicate that Bill will continue to be engagement partner and Jeff Hoover will be management partner. Their people are experienced and have worked on the AHERF engagement in the past.

Page 19 – We have summarized a time line of what we consider to be significant activity over the last year, principally the affiliations or pending transactions. As indicated earlier, they have been involved with various due diligence with management. Importance of time line because of affiliations and audit procedures and reporting aspects will be different than prior years. For example, when the Forbes transaction closed on January 1, AHERF assumed responsibility, so their audit approach will address activity from January 1 on. Because of the number of transactions that occurred during the year, this will have different transactions hitting the financial statements at a different time. That complicates the process in terms of developing the risk analysis.

Page 23 – They have put together a list of significant business risks. Risks simply because of the type of transaction. Attempted to outline what those are and what they would do to address the risks. The hot topic list runs from page 23 to page 26. They have not put the schedule together in any order of priority. There are items we have addressed in engagement plan and there are items that management and IS groups are addressing. On page 23, talk about Physician Network and AR management. Physician Network continues to grow and there are intangibles that are present on the balance sheet. From a receivables management perspective, our plans are to spend extra time in that area. We will continue to do that in 1997. Last item on page 24 talks about acquisitions. There are four to five important items that all deal with accounting estimates, reimbursement, merger related costs, etc. Significant numbers because of the size of the transactions. Talk weekly with financial group at AHERF to come up with these numbers.

Cook: On the AR management business risk, is C&L in tune with AHERF's objective in that area or is the objective more qualitative than quantitative? Is there an overall AHERF target with C&L?

Buettner: Their process is to review the process that management is following to meet that objective as well as to insure that the billing process has controls in place for compliance objectives. Their review will center around net realizability, liquidation and compliance issues.

Cook: If we have the right systems, procedures, etc. in place and it is a matter of fine tuning to achieve a certain AR goal your position is one of commenting on what we have in place?

Buettner: Yes.

Brenner: Wondering what sort of method do you have to deal with acquisitions?

Buettner: In terms of due diligence, we had special members of our acquisition group perform various functions in the review. Members of the audit team were also involved in that process. Similar members would be on the acquisition team for the Philadelphia acquisition activity; some of those were involved in Forbes; some different ones in Allegheny Valley and Health America.

McConnell: The due diligence team includes, beyond C&L, experts in other areas, legal, benefits, and internal people. The expanded team includes many of the same external people, that is, attorneys and benefit people, insurance, same people. It is a consistent team with some specialties brought in when it made geographical sense.

- Barnes: Urge you to keep a heavy eye on AR. The single most important thing is quality of clinical operations, but the second most important is the AR problem. So many changes going on, system changes, etc., it is a tremendously important area. Need to always keep our eye on that area.
- Buettner: In terms of our overall time commitment, that is our overall largest time user. Have listed areas of audit focus, and patient receivables is at the top.
- Barnes: Is this a new focus?
- McConnell: Fifteen years ago it was complicated, but we dealt with Blue Cross 40%, Medicare 40%, etc. There are maybe 10 different billing profiles. With the explosion of managed care, we have 400 to 500 insurance companies. Patient accounting is a very different area to recruit and retain good professionals. Within health care, people float through patient accounting to get an understanding of how it affects the organization and then they move on. Can't get people to stay in this area. In the last couple of years, we have been fortunate that we have been able to attract some people. Today probably is the best senior management group and people who are dedicated to patient accounting. Insurance company goal is not to pay the bill. Have received inpatient follow-up. It is an area that will always be a high focus area.
- Abdelhak: I think we can make some adjustments to improve the reasonableness of our contract. We have 400 or 500 different contracts. The ones we are renewing, we will simplify them. In every instance, we are negotiating a periodic payment. So there will be less incentive to play with us. This will only be with the big players.
- Barnes: Very few industries have as complicated a billing situation as the hospital.
- McConnell: To try to quantify your point, we prepared an analysis for AGH that says we capture \$10 million of revenue and \$4 million is self-pay. We then targeted how many increments are coinsurance deductible amounts, and when you add it together there was \$48 million of self-pay revenue hidden throughout the system.
- Abdelhak: That is a good point, and it may be something that the Audit Committee may take under advisement, and there is an indication that a portion or total bill is self-pay we should get an advance on a credit card. I would encourage you to take it under advisement, but it is \_\_\_\_\_ and in terms of total value and the people we are chasing. If you advance it to the board and the board approves it, we can implement it in a sensitive way.
- Barnes: We don't want to make a decision today but make sure we look at this in a careful way at the next meeting.

Buettner: Any other questions on page 27? Page 30 – We have presented a detailed listing of proposed fees for 1997 versus actual fees for 1996. Two significant changes. (1) management requested that we present consolidated AHERF reports this year instead of Eastern and Western part of the state and also included in the audit is time to do the work on Forbes, GHS and Allegheny Valley. Detailed list presented.

Barnes: I take it you and Mr. Abdelhak have focused on this issue.

Abdelhak: Definitely. I think there is no question that Coopers is doing everything they can to be reasonable in what they have proposed.

Barnes: Do we get any savings out of the consolidation in the Delaware Valley?

Buettner: Yes. The savings is roughly around \$100,000.

McConnell: Last year with the entities separated ( ) had audit fees of \$1 million, etc. This year there is roughly a \$400,000 savings. Important for the Committee to understand.

Barnes: Any more questions?

Cook: Bill, what were the total fees paid to Coopers & Lybrand in 1996?

Beuttner: Approximately \$900,000. Two-thirds of that would represent audit fees and \$300,000 for tax services and due diligence services.

Resolution moved and seconded.

### III. C. Tab 3.

Schrecengost: Discusses status of internal audit focus on the development of the approved work plan and development of 1998 plan and tentative 1999 plan. 1997 audit plan is substantially complete or will be by the end of the fiscal year. I think we can attribute that to a high level of productivity among the audit services staff; strong cooperation from management and increasing use of computer assisted audit techniques. 1998 plans have been developed using three interrelated factors: first is the consideration of the newly-acquired entities and their impact on the audit services work plan. Each acquisition (Graduate, Forbes, Allegheny Valley and HA) has been subject to an extensive due diligence effort involving external advisors, internal people and fairly consistent group of people who moved from one project to another. We considered that in our work plan because to some degree due diligence amounts to a huge financial and legal audit in itself. Second factor is our board approved traditional risk methodology. We started that process

earlier this year and began right after the holidays. Talked with each CEO and senior corporate support officers and discussed with them an audit universe of potential audit topics. This year we put on paper a multi-year risk analysis which shows coordinated audit coverage given by both audit services and Coopers & Lybrand comparing that to a decided audit frequency. Use of these three methodologies resulted a 1998 plan and a tentative 1999 plan. The resulting plans represent a variety of audit projects that encompass significant assessment of billing, regulatory compliance areas (not just billing), employee benefits, clinical operations in AHERF, internal business relationships. IS technology continues to be an area of priority. Consideration of newly acquired entities and emphasis on due diligence efforts have meant that we have not scheduled audits in the various entities. Will spend this year building our infrastructure and draw those into our plan next year. Believe this plan provides us the best level of coverage across the AHERF entities.

Barnes: Talked about yesterday and tomorrow. Are there any audits through March 1 that you discovered any particular comment that should be brought to our attention?

Schrecengost: Significant areas from the past year were in billing compliance and integrity focus on where we are across the organization. Have focused on distributed technology systems and continue to focus on the need for general controls. Have availed ourselves of one of the IRS voluntary compliance programs related to our savings plan.

Cook: Diane, at the last meeting there appeared to be a problem with correct coding in almost every ER we had, regardless of location. It appears we are making progress in correcting the problems. But on page 90, medical audit team indicated over \$1 million in unbilled or underbilled charges. Can you identify what was in the ER?

Schrecengost: This resulted from our audits. They concentrate primarily on the inpatient side. This figure would exclude what we picked up in the ER audits.

Barnes: Moving on to future. Any consideration regarding audit plan for Fiscal Year 1998?

Daniel: Page 46 – There are areas where C&L was doing the work that is now moving to you. There are a number of areas designated as annual with nothing for 1999 and 1998. Why?

Schrecengost: Future plan deals with 1998 and 1999. Bill presents plan for Fiscal Year 1997. If internal audit is not doing it, C&L will be doing it.

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Buettner: Also in terms of developing our plan, our starting point is the control environment at the institution and a key element of our plan is the audit scope of the internal audit staff. And we would develop our plan accordingly.

Buettner: Trying to avoid duplication of effort and maintain appropriate audit scope.

Schrecengost: C&L receives copy of every audit report that is concluded.

Cook: Page 70 and 71 on organization chart – would you identify what is included in the IS audit function?

Schrecengost: In terms of the scope of the work.

\_\_\_\_\_ ? What is their responsibility as it relates to AHERF's IS Department?

Schrecengost: AHERF's IS audit reviews mainframe data controls, backup disaster recovery, as well as the movement through the distributed systems. Provides the computer assisted auditing effort for all of our other audits.

Cook: That underscores a real concern I have and that is whether we have dedicated a sufficient amount of resources in that area. Two positions vacant and see nothing comparable on the Delaware Valley side. I think the concern is in the receivables area. I have a concern that we have grown so large and complex and the name of the game is speed in communications and have concern that we are putting in place necessary resources to insure that AHERF grows the way we want it to grow.

Schrecengost: Tremendous difficulty in recruiting internal auditors, especially in the IS auditor. This is a hard area to recruit in. I lose some of my people to our own IS Department. The IS audit group covers AHERF statewide and they travel to Philadelphia constantly. We are trying to train our other audit people on the use of audit software.

Cook: Are your resources in this area adequate?

Schrecengost: With the vacant positions, no. Always seem to have a vacancy in the IS audit function. Have had vacancies in 5 to 6 months. It is extremely difficult to recruit.

Daniel: How do you cover with the vacancies?

McConnell: The work gets done. Coopers will help with review of certain areas.

Buettner: Agree with Diane. These folks are in very high demand. If you get a good person, you are in danger of losing them.



Schrecengost: We are looking for IS techies that we can train as auditors. Issue is supply and demand and challenging opportunities.

Buettner: Issue is advancement.

Barnes: Any more questions?

Barnes: Compliments Diane on the horizontal layout over the years. This is very well constructed. I think it would be well to put a footnote together to the point of what happened in 1998 and 1999. Footnote in due course this will be coordinated by Coopers.

Resolution page 37 approved.

### III. D.

Schrecengost: Presenting budget of what the costs are to provide coverage of what was discussed in the previous section. Only change is that we have transferred audit function from Graduate to add to our audit services. Graduate auditors had excellent experience with Graduate. Have reorganized Delaware Valley staff. It has gotten large for one manager; have two managers now. Budget reflects modest 4% salary plan. Have non-salary line items at absolute minimum. Market analysis says we are competitive in the market.

Barnes: Any questions? Suggestion, could you prepare a number showing audit costs to revenue in the organization? There is always someone who says at the AHERF board that we are spending too much on an audit.

Schrecengost: There are some industry statistics that we check ourselves to, and I think we are right sized.

McConnell: We will have that before the board meeting.

Resolution approved.

### IV. A.

McConnell: Provided current charge to the Audit Committee. No changes. It is here because it is important to the Committee to review the charge. Management recommending no changes; wondering if Committee has any changes. No changes.



IV. B.

Schrecengost: Brief introduction to the current organization and staffing of the Audit Department. In response to previous requests of the Committee, this is an overview of the education and experience of the department staff. Most are pursuing advanced degrees.

Barnes: Any questions?

IV. C.

Barnes: Activities are all in the book. I do not see anything that merited particular comment. Does anyone have particular questions to be asked?

Schrecengost: Is it duplicative to include both summaries in the report? In both paragraph summaries and management summaries?

\_\_\_\_\_ ? Philadelphia board found it helpful.

\_\_\_\_\_ ? Page 135 – and he explained one audit where he read the material.

Schrecengost: There is duplication, but if you find it helpful we will leave it where it is.

Daniels: Found it hard to know where he should concentrate his energy in reading this. Could you have some kind of a rate system where you could flag the areas we should review?

Schrecengost: There are a few areas that should be pointed out. I would propose a Chief Auditor's summary of the most important issues. If you try to rank things you focus on the level and stop focusing on the problem. I think I can accomplish achieving this by putting in a Chief Auditor's comment.

Offer of executive session, no executive session.

Adjourned 11:05.

**EXHIBIT 7**

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Finance Cte 3/14/97

Audit Cte 10/15/97

W. Region RMC 10/15/97

Finance Cte 10/30/97

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